

Market Capitalization in Malaysia: What Does It Tell Us?

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Introduction

Market capitalization is a valuable tool for investors. An investor's ability to manage exposure to market capitalization can profoundly affect the performance of a portfolio (Reinganum, 1999). The objective of this article is to explain the concept of market capitalization and demonstrate how it can be applied to real-world stock market valuation.

This article is structured to answer a few key questions.

- What is market capitalization?
- Why is market capitalization important in investment valuation?
- How to use screening to classify stocks with different market capitalization within a stock exchange?
- How to apply market capitalization in common stock valuation?

Seeking answer to these key questions help students to link theory to practice in a dynamic and ever-changing market. I strongly believe that practice with real-world data is critical to learning about investment.

To enhance practical exposure for learners, companies listed on Bursa Malaysia are used as case study. The research and data collection in this article is supported by LSEG Data & Analytics (Refinitiv Workspace). It is hoped that this article will be helpful to beginners in stock market analysis or students in undergraduate investment course in their learning journey.

Definition and Measurement of Market Capitalization

The market capitalization of a company is commonly referred to as “market cap”. Market cap is the total market value of a company’s common stock outstanding.

Market cap measures a company’s value based on the number of common shares it has issued and the price at which investors are willing to buy them. Thus, market cap is calculated as follows:

Market capitalization = Market price per common share X the number of common shares outstanding.

For example, Malayan Banking Bhd has the largest market cap of RM118 billion in Malaysia as of May 2024. The issued and fully paid ordinary shares as at 31 December 2023 was 12,060,237,000. Maybank share price was traded at RM9.80 on 6 May 2024. The market cap is RM118 billion.

Market cap changes during trading hours. It can be calculated on a real-time basis using the current market price of the share. The higher the share price, the higher the market cap of a company, and the larger the company. Changes in the number of outstanding shares due to rights issue or share buyback can influence market cap. Assuming a constant share price, issuing new shares would increase market cap and buying them back would decrease it.

Importance of Market Cap

Market cap can be a valuable tool for investors and can be used in several ways. First, market cap shows how much a listed company is worth. It is a quick and easy metric for estimating a company’s market value by extrapolating what the market thinks a public traded company is worth. Market cap tells us about the value investors collectively put on a company’s stock.

Second, market cap gives an idea about the size of a listed company. It can be used to rank companies based on their relative sizes in the market or a particular industry. Generally, large companies own more capital and assets than small companies.

Third, market cap is an important indicator in investment analysis and decision. Empirical research has reported that size (market cap) is an important factor that influences security return:

- Over long investment horizons, small cap outperforms large cap stocks, after adjusting for standard measure of risk. Returns are negatively related to size. Both size and book-to-market equity do a good job explaining the cross-section of average returns on NYSE, AMEX and NASDAQ stocks for the 1963-1990 period (Fama & French, 1993).

- Banz (1981) reports that smaller firms have higher risk adjusted returns, on average, than larger firms. The size effect has been in existence for at least forty years. The size effect is not linear. In the market proportion but is most pronounced for the smallest firms. Size is a proxy for one or more true unknown factors correlated with size (Banz, 1981).
- Chan, Karceski and Lakonishok (2003) report that market cap is inversely related to growth prospects. Bigger firms have a large scale of operations and hence are more likely to face limits on their growth. Therefore, extremely high growth rates are less prevalent for large firms (Chan, et al., 2003).

Lastly, stocks with smaller market caps are not covered by many analysts, or those whose shares are mainly held by individual investors, which may be the best places to search for inefficiencies and mispricing. Smaller cap stocks sometimes are too small for time-constrained analysts or too small for purchase by institutional investors. The price of stocks not researched by many analyst (neglected stocks) may not reflect all relevant information (Reilly & Brown, 2011).

Classification by Market Capitalization

Based on the relative size, common stocks can be classified as Large Cap, Mid Cap, Small Cap or Micro Cap. In US, public companies are commonly grouped by size based on the following thresholds:

- Large cap (US\$10 billion or more)
- Mid cap (US\$2 billion to \$10 billion)
- Small cap (\$250 million to \$2 billion)

The thresholds above are not official or legal designation. Investment managers may have different definitions of market cap and use different criteria to classified companies. A company's share price can also fluctuate enough to move it into a higher or lower market-cap category.

To give students an overview of the distribution of market cap in Malaysia, the author conducts a screening using Refinitiv Workspace. Screening is the application of a set of criteria to reduce an investment universe to a smaller set of investments (Pinto, et al., 2015). When using Refinitiv Screener to screen for shares listed in Malaysia, it is more effective to evaluate the data in original local currency, the Malaysia Ringgit (MYR). Figure 1 shows the Screener of Refinitiv. The filter can be set to Country of Exchange – Malaysia to screen for common stocks listed on Bursa Malaysia. Note that the Currency is set at default in MYR, as circled in RED. The initial screening generates 1033 listed entities, including Equity ETFs and Unit (Trust Fund).

Figure 1 Screener Function in Refinitiv

The screenshot displays the Refinitiv Screener interface. The 'CURRENCY' filter is set to 'MYR' (Malaysia Ringgit), and the 'UNIVERSE' is set to 'Public Companies' with a count of 67.9K. Under 'QUICK FILTERS', 'Country of Exchange' is set to 'Malaysia' with a count of 1033. The interface also shows a list of stock identifiers on the right side.

Identifier	Count
TURB.KL	
SERE.KL	
SINA.KL	
CYBE.KL	
SACB.KL	
KICB.KL	
SHIN.KL	
EAHL.KL	
INGE.KL	
FOPT.KL	
IVRY.KL	
SCCH.KL	
MGRC.KL	1033
CYPR.KL	
MHEB.KL	
AVAL.KL	

To focus on Ordinary Shares, the Instrument Type can be included in the spreadsheet to filter out Equity ETFs and Unit Trust. As shown in Figure 2, an additional column, “Instrument Type” is added to the spreadsheet to identify the type of instrument and to remove non-ordinary shares. There are 992 listed companies remaining after the data cleaning.

Figure 2 Setting Investment Type in Refinitiv Spreadsheet

The screenshot shows the Refinitiv Screener interface. On the left, there are various filters and settings, including 'Currency: MYR', 'UNIVERSE: Public Companies' (67.9K), and 'QUICK FILTERS' such as 'Country of Headquarters', 'Country of Incorporation', 'Company Market Cap', 'Average Daily Value Traded - 52 Weeks', and 'TRBC Economic Sector Name'. The main table displays a list of companies with the following columns: Identifier, Company Name, Country of Exchange, and Instrument Type. The 'Instrument Type' column is circled in red. The table lists various instruments, including Bond ETFs, Closed-Ended Fund, Equity ETFs, and Fully Paid Ordinary Shares.

Identifier	Company Name	Country of Exchange	Instrument Type
ABFM.KL	ABF Malaysia Bond Index	Malaysia	Bond ETFs
ICBZ.KL	IcapitalBiz Bhd	Malaysia	Closed-Ended Fund
EQMI.KL	MYETF MSCI Malaysia Islamic Divid...	Malaysia	Equity ETFs
EQSI.KL	MyETF MSCI SEA Islamic Dividend	Malaysia	Equity ETFs
EQDJ.KL	MyETF Dow Jones U.S. Titans 50	Malaysia	Equity ETFs
TRMO.KL	Tradeplus Dwa Malaysia Momentum...	Malaysia	Equity ETFs
TRAX.KL	Tradeplus Msci Asia Ex Japan Reits ...	Malaysia	Equity ETFs
EQDI.KL	MyETF Dow Jones Islamic Market TL...	Malaysia	Equity ETFs
FBMT.KL	FTSE Bursa Malaysia KLCI etf	Malaysia	Equity ETFs
PRIC.KL	Principal FTSE China 50 ETF	Malaysia	Equity ETFs
PRIN.KL	Principal FTSE ASEAN 40 Malaysia ...	Malaysia	Equity ETFs
SKYW.KL	SkyWorld Development Bhd	Malaysia	Fully Paid Ordinary Shares
RADU.KL	Radium Development Bhd	Malaysia	Fully Paid Ordinary Shares
DXNO.KL	DXN Holdings Bhd	Malaysia	Fully Paid Ordinary Shares
KUMP.KL	Kumpulan Kitacon Bhd	Malaysia	Fully Paid Ordinary Shares
CPET.KL	CPE Technology Bhd	Malaysia	Fully Paid Ordinary Shares
ITMA.KL	ITMAX System Bhd	Malaysia	Fully Paid Ordinary Shares
CAPE.KL	Cape EMS Bhd	Malaysia	Fully Paid Ordinary Shares
LEFO.KL	Leform Bhd	Malaysia	Fully Paid Ordinary Shares

The combined market cap of the 992 listed companies is estimated at MYR1.898 trillion. The top 10 largest companies contribute 33% of the overall market cap (Figure 3). 96 % of the companies (951 companies) have combined market cap below RM10 billion (Table 1). The largest 30 stocks have combined market cap between MYR15 – 118 billion and contribute approximately 60% of the market cap in the stock exchange. The statistics show that large companies dominate in terms of size and impact on the overall market performance. Thus, it can be argued that the US market thresholds are technically not effective in classifying market cap in Malaysia context.

Figure 3 Distribution of Market Cap in Malaysia

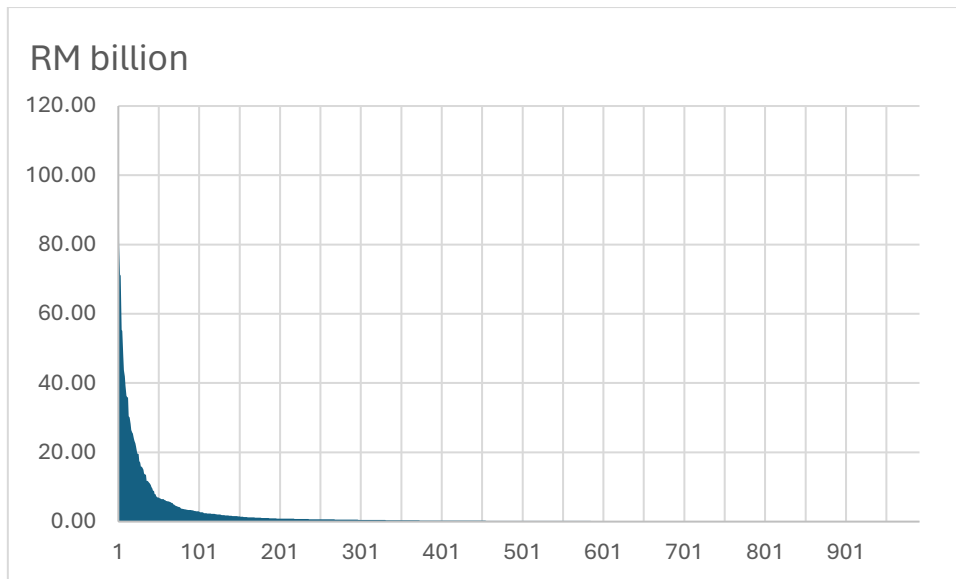


Table 1 An overview of the Market Cap of Listed Companies in Malaysia

Market Cap (MYR billion)	Number of Listed Companies	Percentage
0 to 10	951	95.9%
10 to 20	17	1.7%
20 to 30	9	0.9%
30 to 40	6	0.6%
40 to 50	3	0.3%
50 to 60	2	0.2%
60 to 70	0	0.0%
70 to 80	3	0.3%
80 to 90	0	0.0%
90 to 100	0	0.0%
100 to 110	0	0.0%
110 to 120	1	0.1%

Source: Refinitiv and Author's compilation

For students to have a general idea about large caps in Malaysia, the Top 10 largest companies by market cap are listed in Figure 4.

Figure 4 Top 10 Companies in Malaysia with the Largest Market Cap



Source: Refinitiv

Market Capitalization as a Valuation Tool

Market cap does not measure the fair value of a company as it does not consider the company's fundamentals. It only shows how much the investors in market perceive and are willing to pay for the share. Although market cap reflects the demand and supply forces that determine the equilibrium market price of a stock, the market price can be over- or undervalued relative to the stock's intrinsic value.

Market cap can be combined with other valuation metric to determine the fair value a common stock. A simple method to determine if the overall market is overvalued or undervalued is by evaluating the Market Price-Earnings Ratio (Market PE). According to Pinto et al (2015), the price-earnings ratio for a market portfolio can be calculated directly by aggregating the companies' market cap and earnings (Pinto, et al., 2015).

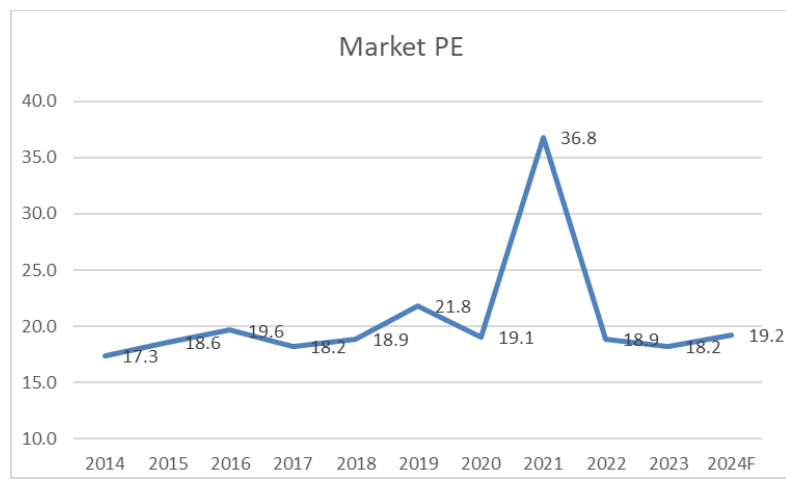
Sampling is widely used to compute market PE. There is no strict rule to the sampling criteria. Analyst can take into consideration the investment objectives of the portfolio. Alternatively, component stocks of an index can be used as sample.

As illustration for learning purpose, the sample selection in this study considers large cap stocks that contribute approximately two-third of the market cap in Bursa Malaysia. There are 42 stocks in Bursa Malaysia with market cap above RM10 billion. Excluding companies with incomplete data, 36 stocks are selected as sample to compute market PE.

In this research, Company Market Cap on 1 Jan for the last ten years (2014 to 2023) and Net Profit After Tax on 31 December for the corresponding sample year are collected. The selection of dates is to reflect the forward-looking nature of the stock markets, assuming share price at the point of analysis incorporated the one-year earnings forecast. As historical data is available, actual (ex-post) reported earnings at the end of the sample year are used. Thus, the total market cap on 1 Jan is divided by the net profit after tax on 31 Dec to calculate the overall market PE.

The results are shown in Figure 5. The market PE appears to be extremely high on 1 Jan 2021, which may be caused by uncertainty during the Covid-19 pandemic.

Figure 5 Historical Market PE of Malaysia 2019 to 2013



The Market PE of Malaysia stock market, as at time of writing this article (8 May 2024), is 19.2x as compared with the 10-year historical average of 20.7x. Therefore, it can be concluded that the stock market of Malaysia is fairly valued currently. Using historical average as benchmark, the upside potential is 7.8% for 2024 (Forecast). Therefore, the author calls for a Neutral / Hold recommendation on the overall market.

Constraints of Study

This research focuses solely on market cap as a concept and valuation tool. It does not consider a more comprehensive set of valuation metrics, as commonly practised in conventional fundamental analysis. In addition, the use of commercial database and screening tools face limitation as there is a lack of control by the researcher in the calculation of important inputs. Lastly, the absence of qualitative factors considered in this study is another important limitation.

Disclaimer

This article is prepared for teaching and learning. The information contained herein is prepared from data and sources believed to be reliable at the time of writing. This document is not and should not be construed or considered as an investment recommendation.

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Appendix: Sample Stocks and Data for Computing Market PE

	Company Name	Company Market Capitalization (MYR) 7 May 2024	Net Income after Tax (2023-12-31, FYO, MYR)	Net Income after Tax (2022-12-31, FYO, MYR)	Net Income after Tax (2021-12-31, FYO, MYR)	Company Market Cap (2023-01-01, MYR)	Company Market Cap (2022-01-01, MYR)	Company Market Cap (2021-01-01, MYR)
1	Malayan Banking Bhd	118,909,673,128	7,898,013,000	8,183,411,000	6,547,351,000	104,870,905,700	98,591,659,709	95,101,921,564
2	Public Bank Bhd	81,559,333,034	6,164,547,000	5,736,047,000	4,931,354,000	83,854,188,295	80,748,477,618	79,972,049,948
3	CIMB Group Holdings Bhd	72,440,025,520	5,562,024,000	4,329,667,000	1,032,974,000	61,857,618,326	55,706,938,377	42,668,776,409
4	IHH Healthcare Bhd	55,583,853,943	1,606,271,000	2,136,729,000	187,458,000	54,773,590,340	64,567,553,858	48,274,707,046
5	PETRONAS Chemicals Group Bhd	55,463,412,162	6,162,000,000	6,590,000,000	1,902,000,000	68,800,000,000	71,360,000,000	59,440,000,000
6	CelcomDigi Bhd	48,109,336,684	765,018,000	1,162,105,000	1,220,969,000	46,926,031,952	33,899,000,000	32,188,500,000
7	Press Metal Aluminium Holdings Bhd	44,430,294,697	1,592,136,000	1,212,934,000	569,775,000	40,209,334,757	46,680,546,271	33,879,739,032
8	Hong Leong Bank Bhd	42,713,065,194	2,528,716,000	2,258,792,000	2,124,689,000	44,568,287,919	40,362,914,448	39,452,472,769
9	YTL Power International Bhd	40,194,632,946	1,700,249,000	1,120,061,000	-469,125,000	5,833,119,248	5,017,298,374	6,077,865,510
10	YTL Corporation Bhd	37,117,702,479	1,702,299,000	1,007,301,000	-722,907,000	6,393,202,157	6,393,202,157	8,432,413,190
11	Misc Bhd	36,529,247,273	1,860,043,000	1,432,449,000	-598,854,000	33,478,448,273	31,469,741,376	30,666,258,618
12	Petronas Gas Bhd	36,067,720,363	1,630,751,000	1,954,272,000	1,922,493,000	33,875,890,385	35,617,174,470	33,994,614,300
13	Nestle (Malaysia) Bhd	30,092,701,351	619,515,000	569,086,000	552,016,000	32,830,000,000	31,469,900,000	32,572,050,000
14	Maxis Bhd	28,207,384,470	1,151,000,000	1,308,000,000	1,382,000,000	30,067,771,046	37,957,414,399	39,506,338,921
15	Axiata Group Bhd	27,006,238,420	-2,347,824,000	316,994,000	607,092,000	28,357,663,201	38,167,945,013	34,294,085,143
16	IOI Corporation Bhd	25,780,198,192	855,700,000	1,427,500,000	887,500,000	25,455,055,930	23,443,792,251	27,466,319,608
17	Kuala Lumpur Kepong Bhd	25,507,262,392	1,186,216,000	2,254,724,000	2,132,617,000	24,171,557,673	23,544,567,357	25,598,501,149
18	Telekom Malaysia Bhd	24,148,875,581	1,142,000,000	873,000,000	990,000,000	20,633,456,052	20,755,355,077	20,415,406,590
19	RHB Bank Bhd	23,670,633,342	2,689,026,000	2,629,000,000	2,008,582,000	24,592,293,306	22,247,472,388	21,854,748,634
20	PPB Group Bhd	22,624,098,161	38,454,000	-67,704,000	16,716,000	24,810,125,496	24,326,441,857	26,346,532,350
21	Petronas Dagangan Bhd	21,745,952,901	776,505,000	530,010,000	272,492,000	22,849,442,000	20,465,152,400	21,259,915,600
22	Sunway Bhd	20,294,959,142	393,806,000	266,478,000	177,204,000	7,993,208,784	8,486,607,631	7,943,630,145
23	Hong Leong Financial Group Bhd	20,204,826,106	2,849,878,000	2,574,102,000	2,560,579,000	21,343,814,154	19,897,942,873	20,724,155,033
24	Sime Darby Bhd	19,364,471,231	1,273,000,000	1,167,000,000	1,504,000,000	15,675,874,427	15,799,010,867	15,713,861,341
25	Genting Bhd	17,453,399,858	243,000,000	-1,077,400,000	-1,984,700,000	17,368,494,524	18,105,104,782	17,290,956,602
26	Malaysia Airports Holdings Bhd	17,226,753,479	159,578,000	-752,641,000	-1,103,125,000	10,884,298,392	9,921,967,131	9,822,415,622
27	QL Resources Bhd	15,947,185,871	360,686,000	235,020,000	315,878,000	13,409,450,836	11,121,813,125	14,115,211,406
28	Genting Malaysia Bhd	15,564,246,943	-514,100,000	-867,300,000	-2,076,400,000	15,973,340,103	17,101,568,586	15,973,340,103
29	Gamuda Bhd	15,073,215,775	603,278,000	391,581,000	317,532,000	9,808,653,870	7,289,232,517	9,777,622,574
30	Dialog Group Bhd	14,064,260,366	156,595,000	254,289,000	315,632,000	13,832,466,471	14,792,267,752	19,476,258,704
31	AMMB Holdings Bhd	13,991,766,233	1,676,305,000	1,324,448,000	-3,754,889,000	13,720,725,254	10,505,965,955	11,001,774,681
32	KLCCP Stapled Group	13,597,027,897	901,456,000	522,266,000	462,161,000	12,113,784,987	11,824,931,694	12,781,758,228
33	Westports Holdings Bhd	13,574,665,062	653,425,000	808,658,000	654,486,000	12,958,000,000	13,810,500,000	14,663,000,000
34	Inari Amertron Bhd	12,075,260,228	323,760,000	391,264,000	330,922,000	9,742,627,050	14,809,355,996	9,109,635,021
35	Fraser & Neave Holdings Bhd	11,778,561,837	538,266,000	374,684,000	389,796,000	7,915,080,052	9,074,100,115	11,766,254,312
36	United Plantations Bhd	10,602,672,924	592,266,000	521,918,000	390,569,000	6,368,908,846	5,777,807,502	6,044,219,375